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*File Copy*

Internal Revenue Service

Department of the Treasury

Date: **OCT 02 2001**

Person to Contact/ Badge Number:

Contact Address:  
**IRS**

Contact Telephone Number:

Dear

We have completed our examination of your Forms 990 for the periods ended  
It has been determined that your tax-exempt status should be revoked.

The enclosed report of examination states the basis for the revocation. You have concurred with our determination and have signed an agreement to that effect on the attached Form 6018. Accordingly, your exemption from Federal Income Tax under section 501(c)(7) of the Internal Revenue Code has been revoked effective as of:


This is a final adverse determination of your tax-exempt status under section 501(c)(7) of the Internal Revenue Code.

As a non-exempt organization, you are now required to file Form 1120, "U.S. Corporate Income Tax Return." We have secured the delinquent Forms 1120 for the periods ended:

You should retain this report with your permanent records for future reference.

Thank you for your cooperation.

Sincerely,

  
R. C. Johnson  
Director, EO Examinations

Enclosure(s):  
Form 6018, "Consent to Proposed Adverse Action"  
Form 886-A, "Explanation of Items"

Form <b>886A</b>	Department of the Treasury - Internal Revenue Service	Schedule No. or Exhibit
<b>Explanation of Items</b>		
Name of Taxpayer		Year/Period Ended

**ISSUE 1:** Revocation of Tax-Exempt Status under Internal Revenue Code Section 501(c)(7)

**FACTS:** \_\_\_\_\_ is incorporated on \_\_\_\_\_ as a nonprofit organization and received exemption as an IRC 501(c)(7) social club in \_\_\_\_\_. \_\_\_\_\_ has established green fees and does allow the general public to use nine-hole golf course. Analysis of the gross receipts generated by the organization for the two-year period ending \_\_\_\_\_ as disclosed nonmember receipts to be in excess of \_\_\_\_\_. These percentages include cart rentals and hall rentals in which no records were maintained to substantiate member and nonmember rentals.

**LAW:** Internal Revenue Code (IRC) section 501(c)(7) provides for the exemption from Federal income taxes for clubs organized for pleasure, recreation, and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder. Revenue Procedure 71-17, 1971-2 C.B. 229, as modified by Committee Reports for Public Law 94-568, (Senate Report 94-1318, 2d Session, 1976-2 C.B. 597, 599), provides certain gross receipts safe harbors; i.e. Social Clubs may receive up to 35% of their total gross receipts, including investment income, from sources outside of their membership without jeopardizing their tax-exempt status. Within this 35% limit, no more than 15% of a club's gross receipts may be derived from nonmember use of the club's facilities and/or services. If these standards are exceeded, a Social Club will not qualify for exemption pursuant to IRC section 501(c)(7).

**FINAL-REG, TAX-REGS, §1.501(c)(7)-1. Social clubs**

(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities.

(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption. [Reg. §1.501(c)(7)-1.]

**CONCLUSION:** As the \_\_\_\_\_ has exceeded the 15% gross receipt standard on a continuous basis, they will not qualify as an organization that is organized and operated correctly

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as a Social Club as described in IRC section 501(c)(7). Revocation of your tax-exempt status is warranted, dating back to

**TAXPAYER'S POSITION:** The taxpayer agrees to the revocation of their tax-exempt status as a 501(c)(7) Social Club.

**ISSUE 2:** Upon the loss of your tax-exempt status, your filing responsibilities with the Internal Revenue Service (IRS) have changed. In lieu of a Form 990, which you have previously filed, you are now liable for filing a Form 1120, "U.S. Corporation Income Tax Return."

You have filed these returns for years ending : during the course of the examination. These returns have been forwarded to the Service Center for you.

**ISSUE 3:** For-Profit Social Clubs

Now that you are no longer recognized as a tax-exempt organization, you are subject to the provisions of IRC section 277. This section briefly states that you may not combine any losses attributable to your membership side of the operations against any gains attributable to your nonmember side of operations. Therefore, you will need to maintain two profit loss statements regarding member and nonmember club sales and expenses.

**ISSUE 4:** Inadequate Records

Adequate records need to be maintained regarding rentals, such as date of function, area of facility rented, time period rented for, name of renter, identified as member or nonmember, arrangements for bar, food, bands and other services. A break down of charges and who paid the bill. In the future these records need to be maintained. Additionally, adequate records need to be maintained to determine the usage of facilities by members and nonmembers to determine the proper allocations of expenses and proper tax liability.

**LAW:** IRC SEC. 6001. NOTICE OR REGULATIONS REQUIRING RECORDS, STATEMENTS, AND SPECIAL RETURNS.

Every person liable for any tax imposed by this title, or for the collection thereof, shall keep such records, render such statements, make such returns, and comply with such rules and regulations as the Secretary may from time to time prescribe. Whenever in the judgment of the Secretary it is necessary, he may require any person, by notice served upon such person or by regulations, to make such returns, render such statements, or keep such records, as the Secretary deems sufficient to show whether or not such person is liable for tax under this title. The only records which an employer shall be required to keep under this section in connection with charged tips shall be charge receipts, records necessary to comply with section 6053(c), and copies of statements furnished by employees under section 6053(a).

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**FINAL-REG, TAX-REGS, §1.6001-1. Records**

(c) *Exempt organizations.* In addition to such permanent books and records as are required by paragraph (a) of this section with respect to the tax imposed by section 511 on unrelated business income of certain exempt organizations, every organization exempt from tax under section 501(a) shall keep such permanent books of account or records, including inventories, as are sufficient to show specifically the items of gross income, receipts and disbursements. Such organizations shall also keep such books and records as are required to substantiate the information required by section 6033. See section 6033 and §§1.6033-1 through -3.

**CONCLUSION:** Although a formal inadequate records notice is not being proposed, failure to maintain adequate records in the future could result in penalties.